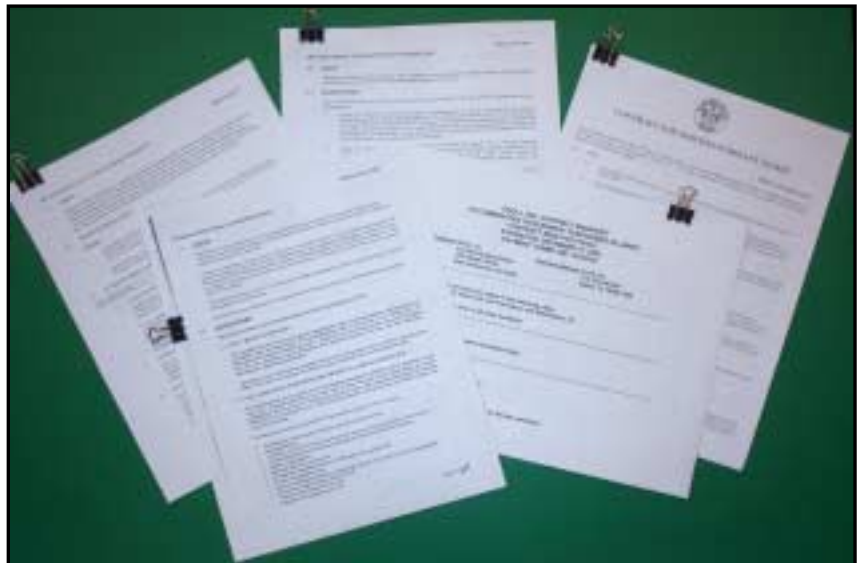




# **Internal Audit Report**

**Countywide Contracts  
July 2003**



## Audit Team Members

**Joe Seratte, Audit Manager**

**Cathleen L. Galassi, Senior Auditor**

**Patra Carroll, Associate Auditor**

**Louise Wild, Staff Auditor**

**Laurie Aquino, Staff Auditor**

**Lisa Iampaglia, Auditor**



# Maricopa County

Internal Audit Department

301 West Jefferson St  
Suite 1090  
Phx, AZ 85003-2143  
Phone: 602-506-1585  
Fax: 602-506-8957  
www.maricopa.gov

July 31, 2003

Fulton Brock, Board of Supervisors  
Don Stapley, Supervisor, District II  
Andrew Kunasek, Supervisor, District III  
Max W. Wilson, Supervisor, District IV  
Mary Rose Wilcox, Supervisor, District V

We have completed our FY 2002-03 review of Countywide contracts. This audit was performed in accordance with the annual audit plan approved by the Board of Supervisors. The specific areas reviewed consisted of five County contracts and were selected through a formal risk-assessment process.

Highlights of this report include the following:

- Expenditures related to four contracts stayed within contract-specified prices and expenditure limits
- The Department of Transportation's change initiative vendor overcharged the department approximately \$10,000 from FY 2001 to FY 2003
- Two contracts were not effectively monitored

Attached are the report summary, detailed findings, recommendations, and management's response. We have reviewed this information with the Department of Transportation and appreciate the excellent cooperation provided by all County employees involved. If you have any questions, or wish to discuss the information presented in this report, please contact Joe Seratte at 506-6092.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate  
County Auditor

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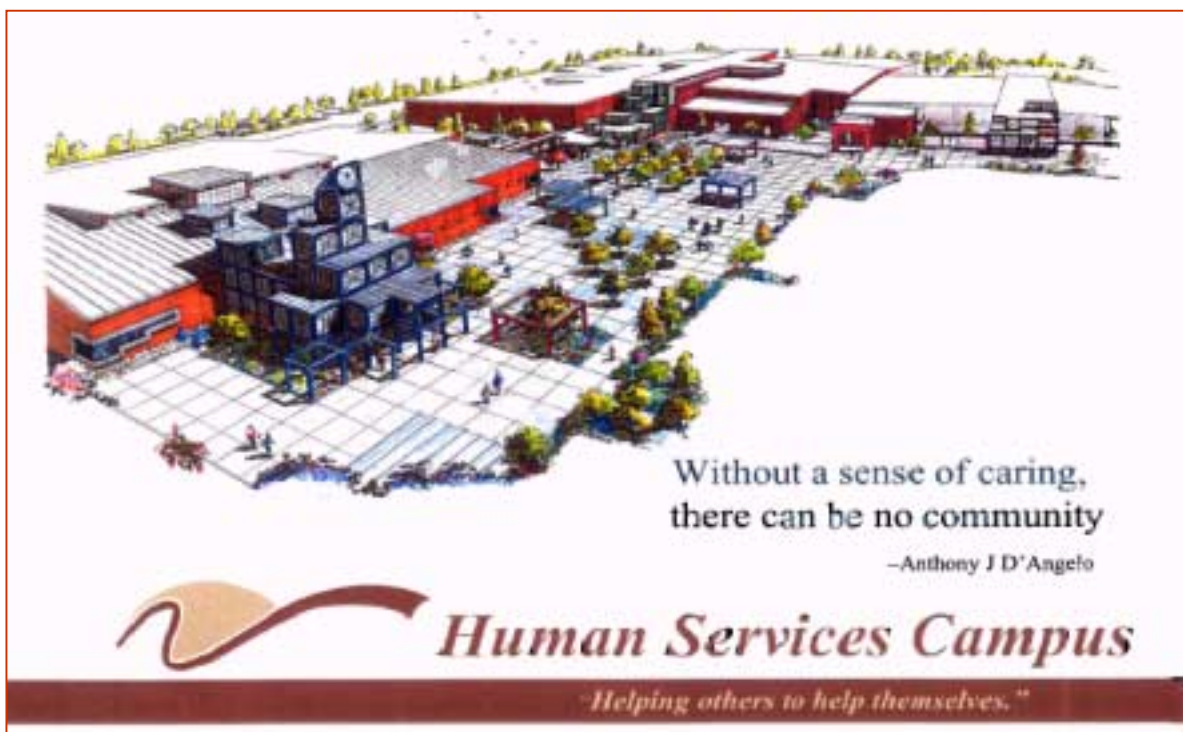
# Executive Summary

## **Contract Overpayments (Page 4)**

Four of five contracts reviewed effectively conformed to contract pricing and expenditure totals. However, On the Mark, Inc. overcharged the Department of Transportation approximately \$10,000 in consulting fees from FY 2001 through FY 2003. Department of Transportation should improve contract monitoring procedures and attempt to recover vendor overcharges.

## **Contract Monitoring (Page 6)**

Three of the five vendors fulfilled contractual obligations and met County procurement standards, however, the Department of Transportation did not effectively review invoices and supporting documentation for two contracts related to organizational change services and IT projects and support. Lack of effective contract monitoring may expose the County to financial losses. The Department of Transportation should strengthen controls over contract monitoring.



**One contract selected for review was awarded to the Genesis Group LLC for fundraising services for the Human Services Campus**

# Introduction

## Background

The Countywide contracts review is an annual engagement in which we review controls and transactions for a selected group of County contracts. Although we did not focus on specific offices or departments in our selection process, some of the contracts tested involved a single department. While Materials Management (MM) is responsible for procurement and oversight of County contracts, each user department is required to monitor vendor performance and contract usage.

MM negotiates, executes, and oversees approximately 1,500 Article 3 contracts (those relating to services and materials). MM is not responsible for Article 5 contracts, which are related to facility construction. MM executes the County Procurement Code and employs a full time Contract Monitor, who reviews contracts on a rotating basis and communicates contract performance to department and supervisory personnel.

We review some contracts, administered by specific departments, as part of the departmental audits included in our annual plan. Additionally, contracts are selected and tested each year through a Countywide risk assessment process.

## Contract Selection Process

We selected and tested five contracts based on risk criteria, which includes the following:

- Total dollars expended
- High-risk nature of goods or services delivered
- Length of contract and complexity of terms

The contracts we reviewed are listed in the table below:

<b>Contract</b>	<b>Commodity or Service</b>	<b>Vendor(s)</b>	<b>Primary County Customer</b>	<b>FY03 Expenditures</b>
BS 00170	Consulting Organization Change Initiative and Training	On the Mark	MCDOT	\$323,393
02013 RFP	Fund Raising	Genesis Group LLC	Human Services/General Government	\$146,035
US Communities Contract RQ01-41131316-C	Office Furniture	Knoll, Inc. and Concert Business Group	Capital Facilities Development and Facilities Management	\$591,203
00221 RFP	Consulting	KJM & Associates	MCDOT	\$66,580 *
BS 98179	Specialty Foods	Benchmark Foods	Sheriff	\$524,465

\* Note: FY 2002 expenditures were \$811,940

## Scope and Methodology

The objectives of this audit were to verify that:

- Vendors comply with contract terms for delivery of goods and services
- Invoices do not exceed the rates/amounts specified within the contract
- Invoices for goods and services are adequately documented
- County Procurement Code and applicable statutes are met

This audit was performed in accordance with generally accepted government auditing standards.

# Issue 1 Contract Overcharges

## Summary

Four of five contracts reviewed effectively conformed to contract pricing and expenditure totals. However, On the Mark, Inc. overcharged the Department of Transportation approximately \$10,000 in consulting fees from FY 2001 through FY 2003. Department of Transportation should improve contract monitoring procedures and attempt to recover vendor overcharges.

## Contract Terms

County contract #000170, awarded to On the Mark (OTM) for organizational change consulting, includes numerous contract terms. OTM adhered to most contract terms, however, we found issues with the following provisions:

- OTM will bill Project Manager time at \$275 per hour.
- No mark-ups on subcontractor services are allowed
- Mileage is specifically excluded from reimbursement
- Marketing services are not included in the contract



**The County purchases office furniture through the US Communities contract**

## Review Results

MCDOT contracts with OTM under County contract #000170 and statewide contract # AS -010274-034. OTM facilitates, plans, and coordinates various MCDOT projects and programs.

We identified approximately \$10,000 in overcharges attributable to OTM under both the County and State contract:

- OTM exceeded contract service rates on 14 invoices. For example, Project Manager services (contracted at \$275/hr.) were invoiced at a rate of \$287.50/hr.
- Hours billed on two OTM invoices exceeded the number of hours reflected on the supporting timesheets.
- Four OTM invoices reflected charges for services not contracted under either the County or State contract. For example, OTM billed MCDOT for marketing services not specified in the contract.

- Three OTM invoices included mark-ups for sub-contracted services expressly counter to the County contract.

The table below depicts the dollar impact for each overcharge category:

### Contract Overcharges

<b>Fiscal Year</b>	<b>Invoice Rates Exceeded Contract Rates</b>	<b>Invoice Hours Exceeded Time Sheet Hours</b>	<b>Services not in Contract</b>	<b>Invalid Subcontractor Mark-ups</b>
<b>FY 2001</b>	\$1,646.88		\$2,400.00	
<b>FY 2002</b>	\$2,709.38	\$480.50	\$675.00	\$1,622.50
<b>FY 2003</b>	\$ 718.75			
<b>Total</b>	<b>\$5,075.01</b>	<b>\$480.50</b>	<b>\$3,075.00</b>	<b>\$1,622.50</b>

OTM concurs with some of these findings, and has agreed to refund or credit against future billings \$2,390.50. MCDOT will continue to work with the vendor to resolve the remaining \$7,862.51.

In addition, we found no overcharges for the following four contracts reviewed:

- Fund Raising – Genesis Group, LLC
- Office Furniture – Knoll, Inc. and Concert Business Group
- Consulting – KJM & Associates
- Specialty Foods – Benchmark Foods

### Recommendation

MCDOT should improve contract monitoring procedures and attempt to recover vendor overcharges.

# Issue 2 Contract Monitoring

## Summary

Three of the five vendors fulfilled contractual obligations and met County procurement standards, however, the Department of Transportation did not effectively review invoices and supporting documentation for two contracts related to organizational change services and IT projects and support. Lack of effective contract monitoring may expose the County to financial losses. The Department of Transportation should strengthen controls over contract monitoring.

## Contract Monitoring Criteria

The American Institute of Certified Public Accountants (AICPA) Government Accounting and Financial Reporting Manual suggests the following invoice processing controls:

- Receive invoices in a central location and maintain a current list of individuals authorized to approve expenditures
- Compare invoice prices and terms with contract terms and conditions, verify accuracy of calculations, and ensure compliance with all contract conditions
- Ensure all cash discounts are taken and applicable tax exemptions are claimed

## Review Results

The table below identifies results from our contract monitoring review:

### Contract Monitoring Results

Contract	Vendor	Primary County Customer	Results
Consultant-Organization Change Initiative and Training	On the Mark	MCDOT	Reportable contract monitoring exceptions
Fund Raising	Genesis Group LLC	Human Services / General Government	No material exceptions
Office Furniture	Knoll, Inc. and Concert Business Group	CFDD and FMD	No material exceptions
Consulting	KJM & Associates	MCDOT	Reportable contract monitoring exceptions
Specialty Foods	Benchmark Foods	Sheriff	No material exceptions

MCDOT oversees two of the contracts tested. The KJM contract was procured to provide technology support and upgrades to existing MCDOT software. The On the Mark contract provides support for organizational restructuring projects at MCDOT. We identified several issues in the monitoring of these two contracts:

### Contract Monitoring Issues

Issue	On the Mark	KJM
Food purchased for meetings between the vendor and MCDOT employees in violation of County Administrative Policy A1508.	✓	
Invoices approved without appropriate support (timesheets and receipts).	✓	✓
Incorrectly expended from a contract that did not support the procured services.	✓	
Total of paid invoices exceeded the authorized limit of the contract.		✓
Invoices did not include specific employee classifications necessary to verify billing rates.	✓	✓
Fifty percent retention was not withheld per contract.		✓
Vendor used a subcontractor without written pre-authorization.	✓	✓
Monthly vendor reports, detail activity, work performed, and the dollar value and quantity of items completed were not available for review.		✓

### Recommendation

MCDOT should:

- A. Establish effective contract monitoring review and approval procedures to ensure contract invoices are in compliance with contract terms and conditions prior to payment.
- B. Ensure that staff is properly trained on contract reviews and payment processing requirements

## **Department Response**



**MARICOPA COUNTY**  
Department of Transportation

**MEMORANDUM**

DATE: July 29, 2003

TO: Ross Tate, County Auditor

VIA: David R. Smith, County Administrative Officer *DRS*  
Joy Rich, Chief Regional Development Services Agency Officer *JR*

FROM: Thomas R. Buick, Transportation Director and County Engineer *TB*

SUBJECT: Internal Audit Report -- Countywide Contracts, July 2003

MCDOT has reviewed the audit findings prepared by the Internal Audit Department. Attached are our responses to the audit recommendations.

This memo confirms that we concur with the report and findings and are therefore willing to forego the Closing Conference.

We wish to commend the Internal Audit Department for their professionalism during the audit process. If there are questions, please feel free to contact me or John Gorman (506-8300).

Attachment

**AUDIT RESPONSE**  
**Maricopa County Department of Transportation July 29, 2003**

**Issue #1:**

**Four of five contracts reviewed effectively conformed to contract pricing and expenditure totals. However, On the Mark, Inc. overcharged the Department of Transportation (MCDOT) approximately \$10,000 in consulting fees from FY 2001 through FY 2003. MCDOT should improve contract monitoring procedures and attempt to recover vendor overcharges.**

**Response:** Concur.

**Recommendation A:** MCDOT should improve contract monitoring procedures and attempt to recover vendor overcharges. This recommendation is linked to Issue #2, Recommendation A.

**Response:** Concur--in process. A meeting was held on July 28, 2003 with On the Mark (OTM) to discuss the amount of overcharges to be returned to MCDOT. We will continue to work with the vendor to resolve this issue.

**Target Completion Date:** 9/30/03

**Benefits/Costs:** Improved processes to eliminate future overcharges..

**Issue #2:**

**Three of the five vendors fulfilled contractual obligations and met County procurement standards, however, MCDOT did not effectively review invoices and supporting documentation for two contracts related to organizational change services and IT projects and support. Lack of effective contract monitoring may expose the County to financial losses. MCDOT should strengthen controls over contract monitoring.**

**Response:** Concur

**Recommendation A:** Establish effective contract monitoring review and approval procedures to ensure contract invoices are in compliance with contract terms and conditions prior to payment.

**Response:** Concur--in process. The MCDOT Leadership Team appointed a liaison to coordinate the payment request, approvals, and compliance process. The team will review the payment request cycle to develop procedures so that payment requests are made in a timely manner and within the ARS guidelines.

A Contract Management Database System for the tracking of Article 5 contract files has been installed in the Article 5 Procurement Department.

The Article 5 Contract Specialists will review, verify, and maintain the database for all payment requests. The Procurement Branch will be responsible for compliance issues.

Benefits/Costs: Improved tracking and review process, eliminate overpayments, and ensure compliance to contractual agreements.

Recommendation B: Ensure that staff is properly trained on contract reviews and payment processing requirements.

Response: A training specialist for contract review and payments will be brought in to train the procurement, finance, and all employees with contract responsibilities.

Target Completion Date: 3/01/04

Benefits/Costs: The training will improve MCDOT's staff effectiveness for contract review and payment processing.

Approved By :

  
Department Head/Elected Official

7.29.03  
Date

  
Chief Officer

7.29.03  
Date

  
County Administrative Officer

7/31/03  
Date